

**RUSSELL INDEPENDENT  
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2005**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**



Kelley,  
Galloway &  
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Russell Independent School District  
Russell, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Russell Independent School District (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Russell Independent School District. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements* and *Appendix II to the Independent Auditor's Contract - State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Russell Independent School District as of June 30, 2005, and the respective changes in financial position and cash flows of its proprietary fund types and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2005, on our consideration of Russell Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and

not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 5 through 9 is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Russell Independent School District's basic financial statements. The combining and individual non-major fund financial statements and other information contained on pages 35-40 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Additionally, the accompanying schedule of expenditures of federal awards contained on page 41 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Russell Independent School District. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Kelley, Gallaway + Company, PSC*

September 8, 2005

**RUSSELL INDEPENDENT SCHOOL DISTRICT - RUSSELL, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED JUNE 30, 2005**

As management of the Russell Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of this report.

**FINANCIAL HIGHLIGHTS**

- The beginning and ending General Fund cash balance for the District was \$1.5 and \$1.1 million, respectively. The decrease was due to the construction of tennis courts at the High School, payout of retirement sick leave, and increase in workers compensation premiums. The remaining cash and cash equivalent beginning and ending balances for all other funds, except fiduciary funds, were also \$1.5 and \$1.1 million, respectively. These balances are restricted for grant, construction and food services and are accounted for in separate funds.
- The building formerly known as Russell Central School was sold. The building was being used for maintenance offices and storage.
- A settlement was reached in the completion of the Russell Primary School facility without monetary loss to the District. The facility is now completed in structural, functional and aesthetic utilization.
- New tennis courts were constructed at Russell High School for approximately \$177,000.
- During fiscal 2005, the District felt little impact from the local economic climate other than the slight decline in property tax collection percentages. The District is primarily reliant on funding by the Commonwealth of Kentucky. The Commonwealth's budget remains volatile but did not have a negative impact on funding for the District in this fiscal year. The District ended with a 7.1% contingency balance.
- The General Fund had \$9.95 million in revenue (excluding on-behalf payments), which consisted of 61.3% state funding (SEEK program) and 37.1% in property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$10.4 million in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with the Kentucky Department of Education (KDE) stringent compliance regulations. The District made \$690,298 in bond payments during the 2004 - 2005 year.
- The District refinanced the bonds associated with the construction of Russell Primary School during the 2004 - 2005 school year at a cumulative savings of approximately \$300,000. These savings will be used to fund future capital projects.
- The number of enrolled students increased from 2,184 students in 2004 to 2,201 in 2005. Average daily attendance increased from 1,912.1 to 1,915.9 students in the same period. The SEEK funding is based upon average daily attendance. The District will enhance efforts to increase attendance.
- The financial statements include payments made by the Commonwealth of Kentucky for retirement, health insurance, life insurance, administrative fees and utilization of the Russell Area Vocational School by our students. The total amount was \$1.86 and \$2.35 million for the 2004 and 2005 fiscal years, respectively. These amounts are shown as both a revenue and expense in the financial statements, and therefore, do not affect the fund position of the District. These amounts are not included for purposes of discussion in this analysis.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide, 2) fund, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, and student transportation. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10 and 11 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12 through 22 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 34 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately \$5.0 and \$5.6 million as of June 30, 2005 and 2004.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

#### Net Asset comparison for the periods ending June 30, 2005 and 2004

The District's net asset position is shown comparatively as follows:

	June 30, 2005	June 30, 2004
Current Assets	\$ 2,397,828	\$ 3,439,941
Noncurrent Assets	11,348,003	11,644,264
Total Assets	<u>\$ 13,745,831</u>	<u>\$ 15,084,205</u>
Current Liabilities	\$ 778,360	\$ 1,246,038
Noncurrent Liabilities	8,035,264	8,277,424
Total Liabilities	<u>8,813,624</u>	<u>9,523,462</u>
Net Assets		
Investment in capital assets (net of debt)	3,025,296	3,233,027
Restricted	79,470	79,470
Unreserved Fund Equity	1,827,441	2,248,246
Total Net Assets	<u>\$ 4,932,207</u>	<u>\$ 5,560,743</u>

#### Comments on Budget Comparisons and Analysis

- The overall net asset position decreased due to reduction in debt due to the payment of sick leave of \$152,000, net loss of SEEK funding due to changes made by state in transportation funding of \$105,000, increases in workers compensation of \$43,000, maintenance special projects and equipment of \$59,000, and depreciation.
- The District's total revenues for the comparable fiscal periods as shown below remained relatively constant with only a 0.9% variance in budgeted revenues to actual.
- The total cost of all programs and services was \$13.5 and \$14.5 million in 2005 and 2004, respectively. The decrease was due to \$1.7 million in construction expenditures in the 2004 year with none in the current year, offset by salary increases and maintenance needs.
- General Fund actual expenditures to budget, net of contingency allotments, differed by \$480,000, or 4.8%. The difference was due to the \$177,000 tennis court construction, the \$152,000 sick leave buyout, increases in workers compensation insurance and maintenance projects and equipment needs.
- Site Based Decision Making Councils expended 61.0% of the General Fund budget, 14.2% was expended on maintenance and operations, 8.8% on District administration, 6.4% on serving children with special needs, 4.4% on transportation, and 2.1% on itinerant instruction.

The following table presents a summary of revenue and expense for the fiscal years ended June 30, 2005 and 2004 for selected funds, (excluding on-behalf payments):

#### June 30, 2005

Revenues:	General Fund	Special Revenue	Capital Projects	Food Service	Total
Local revenue sources	\$ 3,805,053	\$ 131,848	\$ 345,447	\$ 434,643	\$ 4,716,991
State revenue sources	6,104,611	558,983	414,782	11,110	7,089,486
Federal revenue	6,446	813,215	-	319,680	1,139,341
Other sources	34,942	26,387	275	-	61,604
Total Revenues	<u>9,951,052</u>	<u>1,530,433</u>	<u>760,504</u>	<u>765,433</u>	<u>13,007,422</u>



**Expenses:**

Instruction	5,587,598	1,123,956	-	-	6,711,554
Student support services	453,204	76,878	-	-	530,082
Instructional support	871,836	224,936	-	-	1,096,772
District administration	824,147	4,108	-	-	828,255
School administration	660,893	868	-	-	661,761
Business support	107,417	-	-	-	107,417
Plant operations	1,495,972	-	-	-	1,495,972
Student transportation	420,765	11,003	-	-	431,768
Central office support	-	-	-	-	-
Community support	863	88,684	-	-	89,547
Food services	210	-	-	799,045	799,255
Debt service	58,693	-	690,298	-	748,991
Building renovation	-	-	-	-	-
Transfers	26,387	-	-	-	26,387
Total expenses	<u>10,507,985</u>	<u>1,530,433</u>	<u>690,298</u>	<u>799,045</u>	<u>13,527,761</u>

Revenues over (under)  
expenses

\$ (556,933) \$ - \$ 70,206 \$ (33,612) \$ (520,339)

**June 30, 2004****Revenues:**

	General Fund	Special Revenue	Capital Projects	Food Service	Total
Local revenue sources	\$ 3,761,355	\$ 133,855	\$ 345,093	\$ 466,044	\$ 4,706,347
State revenue sources	6,075,793	569,703	382,743	10,518	7,038,757
Federal revenue	-	978,430	-	261,869	1,240,299
Other sources	479	19,186	-	-	19,665
Total Revenues	<u>9,837,627</u>	<u>1,701,174</u>	<u>727,836</u>	<u>738,431</u>	<u>13,005,068</u>

**Expenses:**

Instruction	5,530,470	1,225,027	-	-	6,755,497
Student support services	398,007	180,639	-	-	578,646
Instructional support	565,769	114,809	-	-	680,578
District administration	523,394	77,018	-	-	600,412
School administration	661,901	1,057	-	-	662,958
Business support	108,695	-	-	-	108,695
Plant operations	1,255,654	-	-	-	1,255,654
Student transportation	432,899	13,032	-	-	445,931
Central office support	102,076	-	-	-	102,076
Community support	644	89,592	-	-	90,236
Food services	1,124	-	-	769,596	770,720
Debt service	53,212	-	724,393	-	777,605
New building construction	-	-	-	-	-
Building renovation	-	-	1,705,863	-	1,705,863
Transfers	19,186	-	-	-	19,186
Total expenses	<u>9,653,031</u>	<u>1,701,174</u>	<u>2,430,256</u>	<u>769,596</u>	<u>14,554,057</u>

Revenues over (under)  
expenses

\$ 184,596 \$ - \$ (1,702,420) \$ (31,165) \$ (1,548,989)

## **BUDGETARY IMPLICATIONS FOR 2005-2006**

In Kentucky, the public school fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District anticipates adoption of a budget in September 2005 well in excess of the minimum. The District is currently considering the renovation of Russell-McDowell Intermediate School and the installation of an elevator at Russell Middle School, as well as the addition of security cameras, new intercom and clock systems at all school buildings. These projects could begin as early as the summer of 2006 and will be funded by a combination of a bond issue and using currently restricted capital construction monies. With the Commonwealth's recent budget adoption, funding for the District appears secure for the coming fiscal period. We at Russell Independent will continue to make every effort to ensure that our students enjoy the most challenging of academic practices, a safe environment, excellent facilities and competitive athletic opportunities.

Questions regarding this report should be directed to Superintendent Dr. Susan E. Compton or to Dennis C. Chambers, CPA, Director of Finance (606) 836-9679 or by mail at 409 Belfont Street, Russell, Kentucky 41169-1320.

**RUSSELL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,415,221	\$ 220,610	\$ 1,635,831
Certificates of deposit	500,000	-	500,000
Receivables (net of allowances for uncollectibles):			
Property taxes	22,872	-	22,872
Other	103,121	-	103,121
Intergovernmental - federal	94,027	27,201	121,228
Inventories	-	14,776	14,776
Capital assets, not being depreciated	551,862	-	551,862
Capital assets, being depreciated, net	10,690,542	105,599	10,796,141
Total assets	<u>13,377,645</u>	<u>368,186</u>	<u>13,745,831</u>
<b>Liabilities</b>			
Accounts payable	89,554	214	89,768
Accrued payroll and employee benefits	18,697	-	18,697
Deferred revenue	101,644	-	101,644
Noncurrent liabilities:			
Portion due or payable within one year:			
Bond obligations	470,000	-	470,000
Note payable	98,251	-	98,251
Portion due or payable after one year:			
Bond obligations	7,510,000	-	7,510,000
Note payable	244,456	-	244,456
Accrued sick leave	280,808	-	280,808
Total liabilities	<u>8,813,410</u>	<u>214</u>	<u>8,813,624</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,919,697	105,599	3,025,296
Restricted for:			
Capital projects	79,470	-	79,470
Unrestricted	1,565,068	262,373	1,827,441
Total net assets	<u>\$ 4,564,235</u>	<u>\$ 367,972</u>	<u>\$ 4,932,207</u>

The accompanying notes to financial statements are  
an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
Instruction	\$ 8,663,676	\$ 41,078	\$ 1,056,491	\$ -	\$ (7,566,107)	\$ -	\$ (7,566,107)
Support services:							
Students	591,158	-	76,878	-	(514,280)	-	(514,280)
Instructional staff	1,192,436	-	224,936	-	(967,500)	-	(967,500)
District administration	875,771	-	4,108	-	(871,663)	-	(871,663)
School administration	754,401	-	868	-	(753,533)	-	(753,533)
Business and other support services	121,722	-	-	-	(121,722)	-	(121,722)
Operation and maintenance of plant	1,716,591	-	-	-	(1,716,591)	-	(1,716,591)
Student transportation	539,271	-	11,003	-	(528,268)	-	(528,268)
Food service operations	210	-	-	-	(210)	-	(210)
Community services	89,547	-	88,684	-	(863)	-	(863)
Facilities acquisition and construction	(275)	-	-	-	275	-	275
Debt service	718,036	-	-	529,087	(188,949)	-	(188,949)
Total governmental activities	<u>15,262,544</u>	<u>41,078</u>	<u>1,462,968</u>	<u>529,087</u>	<u>(13,229,411)</u>	<u>-</u>	<u>(13,229,411)</u>
Business-type activities:							
Food service	808,282	426,787	370,778	-	-	(10,717)	(10,717)
Total business-type activities	<u>808,282</u>	<u>426,787</u>	<u>370,778</u>	<u>-</u>	<u>-</u>	<u>(10,717)</u>	<u>(10,717)</u>
Total primary government	<u>\$ 16,070,826</u>	<u>\$ 467,865</u>	<u>\$ 1,833,746</u>	<u>\$ 529,087</u>	<u>\$ (13,229,411)</u>	<u>\$ (10,717)</u>	<u>\$ (13,240,128)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes							
Motor vehicle							
Utilities							
Intergovernmental revenues:							
State							
Federal							
Investment earnings							
Gain on disposal of capital assets							
Other local revenues							
Total general revenues and transfers							
Change in net assets							
Net assets, June 30, 2004							
Net assets, June 30, 2005							

The accompanying notes to financial statements are an integral part of this Statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2005**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>FSPK Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 538,384	\$ 13,656	\$ 777,113	\$ 86,068	\$ 1,415,221
Certificates of deposit	500,000	-	-	-	500,000
Receivables (net of allowances for uncollectibles):					
Taxes - current	17,023	-	-	-	17,023
Taxes - delinquent	5,849	-	-	-	5,849
Other	103,121	-	-	-	103,121
Intergovernmental - Federal	-	94,027	-	-	94,027
Total assets	<u>\$ 1,164,377</u>	<u>\$ 107,683</u>	<u>\$ 777,113</u>	<u>\$ 86,068</u>	<u>\$ 2,135,241</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 83,515	\$ 6,039	\$ -	\$ -	\$ 89,554
Accrued payroll and employee benefits	18,697	-	-	-	18,697
Deferred revenue	-	101,644	-	-	101,644
Total liabilities	<u>102,212</u>	<u>107,683</u>	<u>-</u>	<u>-</u>	<u>209,895</u>
<b>Fund balances:</b>					
Restricted	13,361	-	-	79,470	92,831
Reserved for site based council	105,174	-	-	-	105,174
Designated for Capital Expansion	-	-	777,113	-	777,113
Unreserved	943,630	-	-	6,598	950,228
Total fund balances	<u>1,062,165</u>	<u>-</u>	<u>777,113</u>	<u>86,068</u>	<u>1,925,346</u>
Total liabilities and fund balances	<u>\$ 1,164,377</u>	<u>\$ 107,683</u>	<u>\$ 777,113</u>	<u>\$ 86,068</u>	<u>\$ 2,135,241</u>

The accompanying notes to financial statements are  
an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2005**

Fund balances - total governmental funds	\$ 1,925,346
--	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	11,242,404
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Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the governmental funds.	<u>(8,603,515)</u>
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Net assets of governmental activities	<u><u>\$ 4,564,235</u></u>
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The accompanying notes to financial statements are  
an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>FSPK Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>					
From local sources:					
Taxes -					
Property	\$ 2,638,953	\$ -	\$ 339,124	\$ -	\$ 2,978,077
Motor vehicles	480,401	-	-	-	480,401
Utilities	573,716	-	-	-	573,716
Tuition and fees	-	41,078	-	-	41,078
Interest income	87,676	-	-	6,323	93,999
Other local revenues	24,307	90,770	-	-	115,077
Intergovernmental - State	8,411,848	558,982	223,192	305,895	9,499,917
Intergovernmental - Indirect federal	-	746,853	-	-	746,853
Intergovernmental - Direct federal	6,446	66,363	-	-	72,809
Total revenues	<u>12,223,347</u>	<u>1,504,046</u>	<u>562,316</u>	<u>312,218</u>	<u>14,601,927</u>
<b>Expenditures:</b>					
Current:					
Instruction	7,504,519	1,123,956	-	-	8,628,475
Support services:					
Students	513,516	76,878	-	-	590,394
Instructional staff	966,248	224,936	-	-	1,191,184
District administration	848,659	4,108	-	-	852,767
School administration	742,690	868	-	-	743,558
Business and other support services	119,985	-	-	-	119,985
Operation and maintenance of plant	1,578,853	-	-	-	1,578,853
Student transportation	454,599	11,003	-	-	465,602
Food service operation	210	-	-	-	210
Community services	863	88,684	-	-	89,547
Facilities acquisition and construction	-	-	-	(275)	(275)
Debt service	58,693	-	-	804,603	863,296
Total expenditures	<u>12,788,835</u>	<u>1,530,433</u>	<u>-</u>	<u>804,328</u>	<u>15,123,596</u>
Excess (deficiency) of revenues over expenditures	<u>(565,488)</u>	<u>(26,387)</u>	<u>562,316</u>	<u>(492,110)</u>	<u>(521,669)</u>
<b>Other financing sources (uses):</b>					
Proceeds from sale of equipment	34,942	-	-	-	34,942
Transfers in	-	26,387	-	636,070	662,457
Transfers out	(26,387)	-	(498,708)	(137,362)	(662,457)
Total other financing sources and uses	<u>8,555</u>	<u>26,387</u>	<u>(498,708)</u>	<u>498,708</u>	<u>34,942</u>
Net change in fund balances	(556,933)	-	63,608	6,598	(486,727)
Fund balances, June 30, 2004	<u>1,619,098</u>	<u>-</u>	<u>713,505</u>	<u>79,470</u>	<u>2,412,073</u>
Fund balances, June 30, 2005	<u>\$ 1,062,165</u>	<u>\$ -</u>	<u>\$ 777,113</u>	<u>\$ 86,068</u>	<u>\$ 1,925,346</u>

The accompanying notes to financial statements are  
an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

Net change in fund balances - total governmental funds	\$	(486,727)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	329,000	
Depreciation	<u>(616,024)</u>	
		(287,024)

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for accrued sick leave.	59,546
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Bond and capital lease proceeds are recognized as revenues of current financial resources in the fund financial statements, but are increases in liabilities in the statement of net assets.	(4,671,730)
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Bond and capital lease payments re recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	<u>4,760,260</u>
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Change in net assets of governmental activities	\$	<u>(625,675)</u>
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The accompanying notes to financial statements are  
an integral part of this statement.



**RUSSELL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2005**

	<u>Food Service Fund</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 220,610
Receivables (net of allowances for uncollectibles)	
Intergovernmental - federal	27,201
Inventories	<u>14,776</u>
Total current assets	<u>262,587</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>105,599</u>
Total noncurrent assets	<u>105,599</u>
Total assets	<u><u>\$ 368,186</u></u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	<u>\$ 214</u>
Total current liabilities	<u>214</u>
Total liabilities	<u>214</u>
<b>Net Assets</b>	
Unrestricted	<u>367,972</u>
Total net assets	<u><u>\$ 367,972</u></u>

The accompanying notes to financial statements are  
an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	Food Service Fund
Operating revenues:	
Lunchroom sales	\$ 426,787
Total operating revenues	<u>426,787</u>
Operating expenses:	
Salaries and wages	282,144
Employee benefits	78,084
Contract services	9,936
Materials and supplies	411,376
Depreciation	26,377
Other operating expenses	365
Total operating expenses	<u>808,282</u>
Operating loss	<u>(381,495)</u>
Nonoperating revenues :	
Federal grants	282,803
Investment income	7,856
Donated commodities	36,877
State grants	51,098
Total nonoperating revenue	<u>378,634</u>
Decrease in net assets	(2,861)
Net assets, June 30, 2004	<u>370,833</u>
Net assets, June 30, 2005	<u><u>\$ 367,972</u></u>

The accompanying notes to financial statements are  
an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	Food Service Fund
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 426,787
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(382,947)
Payments to employees	(360,228)
Other payments	(365)
Net cash used for operating activities	<u>(316,753)</u>
Cash flows from noncapital financing activities:	
Governmental grants	<u>343,057</u>
Net cash provided by noncapital financing activities	<u>343,057</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(17,140)</u>
Net cash used for capital and related financing activities	<u>(17,140)</u>
Cash flows from investing activities:	
Interest received on certificates of deposit	7,856
Proceeds from Certificate of Deposit	<u>16,675</u>
Net cash provided by investing activities	<u>24,531</u>
Net increase in cash and cash equivalents	33,695
Cash and cash equivalents, June 30, 2004	<u>186,915</u>
Cash and cash equivalents, June 30, 2005	<u><u>\$ 220,610</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (381,495)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	26,377
Donated commodities	36,877
Change in assets and liabilities:	
Inventories	1,439
Accounts payable	<u>49</u>
Net cash used for operating activities	<u><u>\$ (316,753)</u></u>
Non-cash items:	
Donated commodities	<u>\$ 36,877</u>
On-behalf payments	<u><u>\$ 39,988</u></u>

The accompanying notes to financial statements are  
an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2005**

	<u>Scholarship Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 110,006	\$ 148,927
Accounts receivable	-	1,935
Total assets	<u>\$ 110,006</u>	<u>\$ 150,862</u>
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 1,980
Due to students	-	148,882
Total liabilities	<u>-</u>	<u>150,862</u>
<b>Net assets held in trust</b>	<u>\$ 110,006</u>	<u>\$ -</u>

The accompanying notes to financial statements are  
an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Scholarship Funds</u>
Additions -	
Contributions	\$ 14,190
Interest Income	<u>1,190</u>
	15,380
Deductions -	
Benefits paid	<u>20,440</u>
Change in Net Assets	(5,060)
Net Assets June 30, 2004	<u>115,066</u>
Net Assets June 30, 2005	<u><u>\$ 110,006</u></u>

The accompanying notes to financial statement are  
an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues:				
Taxes -				
Property	\$ 2,515,483	\$ 2,674,044	\$ 2,638,953	\$ (35,091)
Motor vehicles	402,000	395,906	480,401	84,495
Utilities	520,000	550,000	573,716	23,716
Tuition and fees	3,000	3,000	-	(3,000)
Interest income	60,000	55,000	87,676	32,676
Other local revenues	5,000	-	36,307	36,307
Intergovernmental - State	6,035,201	6,176,871	6,092,611	(84,260)
Intergovernmental - Federal	-	-	6,446	6,446
Total revenues	<u>9,540,684</u>	<u>9,854,821</u>	<u>9,916,110</u>	<u>61,289</u>
Expenditures:				
Current:				
Instruction	5,481,064	5,611,123	5,587,598	23,525
Support services:				
Students	409,432	456,029	453,204	2,825
Instructional staff	559,155	843,212	871,836	(28,624)
District administration	599,502	556,654	824,147	(267,493)
School administration	759,465	723,212	660,893	62,319
Business and other support services	219,608	104,189	107,417	(3,228)
Operation and maintenance of plant	1,159,615	1,231,553	1,495,972	(264,419)
Student transportation	349,533	409,186	420,765	(11,579)
Food service operations	-	500	210	290
Community services	-	263	863	(600)
Contingency	1,337,812	1,449,193	-	1,449,193
Debt service	70,000	58,805	58,693	112
Total expenditures	<u>10,945,186</u>	<u>11,443,919</u>	<u>10,481,598</u>	<u>962,321</u>
Excess (deficiency) of revenues over expenditures	<u>(1,404,502)</u>	<u>(1,589,098)</u>	<u>(565,488)</u>	<u>1,023,610</u>
Other financing sources (uses):				
Proceeds from sale of equipment	-	-	34,942	34,942
Transfers in	-	-	-	-
Transfers out	30,000	(30,000)	(26,387)	3,613
Total other financing sources and uses	<u>30,000</u>	<u>(30,000)</u>	<u>8,555</u>	<u>38,555</u>
Net change in fund balances	<u>(1,374,502)</u>	<u>(1,619,098)</u>	<u>(556,933)</u>	<u>1,062,165</u>
Fund balances, June 30, 2004	<u>-</u>	<u>1,619,098</u>	<u>1,619,098</u>	<u>-</u>
Fund balances, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,062,165</u>	<u>\$ 1,062,165</u>
Adjustments to Generally Accepted Accounting Principles-				
Intergovernmental State Revenue			2,307,237	
On-behalf payments:				
Instruction			(1,916,921)	
Support Services:				
Students			(60,312)	
Instructional Staff			(94,412)	
General Administration			(24,512)	
School Administration			(81,797)	
Business and other support services			(12,568)	
Operation and maintenance of plant			(82,881)	
Student transportation			(33,834)	
Fund Balance, June 30, 2005 (GAAP basis)			<u>\$ 1,062,165</u>	

The accompanying notes to financial statements are  
an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
Revenues:				
Interest income	\$ -	\$ -	\$ -	\$ -
Student Fees	40,000	-	41,078	41,078
Other local revenues	286,469	43,300	90,770	47,470
Intergovernmental - State	1,601,757	564,593	558,982	(5,611)
Intergovernmental - Indirect federal	2,255,079	757,055	746,853	(10,202)
Intergovernmental - Direct federal	296,518	35,000	66,363	31,363
Total revenues	<u>4,479,823</u>	<u>1,399,948</u>	<u>1,504,046</u>	<u>104,098</u>
Expenditures:				
Current:				
Instruction	3,830,447	1,109,680	1,123,956	(14,276)
Support services:				
Students	309,623	31,607	76,878	(45,271)
Instructional staff	523,045	190,821	224,936	(34,115)
District administration	127,715	-	4,108	(4,108)
School administration	-	-	868	(868)
Student transportation	35,101	10,090	11,003	(913)
Community services	269,252	87,750	88,684	(934)
Total expenditures	<u>5,095,183</u>	<u>1,429,948</u>	<u>1,530,433</u>	<u>(100,485)</u>
Excess (deficiency) of revenues over expenditures	<u>(615,360)</u>	<u>(30,000)</u>	<u>(26,387)</u>	<u>3,613</u>
Other financing sources (uses):				
Transfers in	80,000	30,000	26,387	(3,613)
Transfers out	-	-	-	-
Total other financing sources and uses	<u>80,000</u>	<u>30,000</u>	<u>26,387</u>	<u>(3,613)</u>
Net change in fund balances	<u>(535,360)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2004	<u>535,360</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to financial statements are  
an integral part of this statement.

**RUSSELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**(1) REPORTING ENTITY**

The Russell Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Russell Independent School District (District). The District receives funding from local, state and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The Board, for financial reporting purposes, includes all of the funds and account groups relevant to the operation of the Russell Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing Board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements.

Russell Independent School District Finance Corporation

On October 30, 1989, the Russell Independent School District Board of Education resolved to authorize the establishment of the Russell Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180), as an agency of the Board for financing the costs of school building facilities. The members of the Russell Independent School District Board of Education also comprise the Corporation's Board of Directors.

Copies of component unit reports may be obtained from the District's Finance Office at 409 Belfont Street, Russell, Kentucky 41169-1320.

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS**

The accounting policies of the Russell Independent School District substantially comply with accounting principles generally accepted in the United States and the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.



Government-wide statements - provide information about the primary government (the District). The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund financial statements - provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

#### I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
3. The School Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction expenditures. This is a major fund of the District.

(D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

## II. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

## III. Fiduciary Fund Types

The Scholarship Funds provide funding for students' higher education in accordance with the terms or conditions specified by the donors.

The Agency Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

## Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditure) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

#### Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. The assessed value of property upon which the levy for the 2005 fiscal year was based was \$678,248,879.

The tax rates assessed for the year ended June 30, 2005 to finance general fund operations were \$.517 on real estate and \$.518 per \$100 valuation on tangible property.

Taxes are due on October 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2005 were 94.7% of the tax levy for real property and 105.1% for motor vehicles.

#### Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2005. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements resulting from encumbrances.

#### Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of three months or less, to be cash equivalents.

## Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory using the accrual basis of accounting. Inventories are stated at the lower of cost or market, on the first-in, first-out basis.

## Depreciation

Depreciation of Proprietary Fund assets is computed using the straight-line method over the assets estimated useful lives. Estimated lives used for depreciation purposes are as follows:

<u>Classification</u>	<u>Estimated Life</u>
Equipment	5-12 years

## Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
Other general equipment	10 years

## Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

## Budgetary Process

**Budgetary Basis of Accounting:** The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major

differences between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See Note (13) for these amounts which were not known by the District at the time the budget was adopted.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

#### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, all payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

#### Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, Site Based Council and capital expenditures.

#### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

#### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating revenues. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. All other expenses are nonoperating.

## Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

## Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### **(3) CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

<u>Governmental Activities</u>	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2005</u>
Land	\$ 551,862	\$ -	\$ -	\$ 551,862
Land improvements	1,157,510	183,149	-	1,340,659
Buildings and improvements	14,668,658	13,338	-	14,681,996
Technology equipment	1,379,268	81,900	(94,567)	1,366,601
General equipment	227,060	50,613	-	277,673
Vehicles	1,186,062	-	-	1,186,062
Totals at historical cost	<u>19,170,420</u>	<u>329,000</u>	<u>(94,567)</u>	<u>19,404,853</u>
Less: accumulated depreciation -				
Land improvements	(740,212)	(61,015)	-	(801,227)
Buildings and improvements	(4,872,107)	(327,691)	-	(5,199,798)
Technology equipment	(1,134,519)	(131,381)	94,567	(1,171,333)
Vehicles	(783,611)	(79,175)	-	(862,786)
General equipment	(110,543)	(16,762)	-	(127,305)
Total accumulated depreciation	<u>(7,640,992)</u>	<u>(616,024)</u>	<u>94,567</u>	<u>(8,162,449)</u>
Governmental Activities				
Capital Assets-Net	<u>\$ 11,529,428</u>	<u>\$ (287,024)</u>	<u>\$ -</u>	<u>\$ 11,242,404</u>
<u>Business-Type Activities</u>				
Food service land improvements	\$ -	\$ 2,350	\$ -	\$ 2,350
Food service building and improvements	-	13,200	-	13,200
Food service equipment	341,375	1,590	-	342,965
Technology equipment	33,317	-	(3,000)	30,317
Totals at historical cost	<u>374,692</u>	<u>17,140</u>	<u>(3,000)</u>	<u>388,832</u>
Less: accumulated depreciation -				
Building and improvements	-	(1,760)	-	(1,760)
Equipment	(248,163)	(18,874)	-	(267,037)
Technology equipment	(11,693)	(5,744)	3,000	(14,436)
Total accumulated depreciation	<u>(259,856)</u>	<u>(26,377)</u>	<u>3,000</u>	<u>(283,233)</u>
Business-Type Activities				
Capital Assets-Net	<u>\$ 114,836</u>	<u>\$ (9,237)</u>	<u>\$ -</u>	<u>\$ 105,599</u>

Depreciation expense is allocated to governmental functions as follows:

Instruction	\$ 367,017
District administration	23,004
School administration	10,843
Plant operation and maintenance	137,738
Student transportation	73,669
Student support services	764
Staff support services	1,252
Business support services	1,737
	<u>\$ 616,024</u>

#### **(4) RETIREMENT PLANS**

##### **A. Kentucky Teachers Retirement System:**

The District contributes to the Kentucky Teachers Retirement System ("KTRS"), a cost sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees of the public school systems and other public educational agencies in Kentucky.

The Kentucky Teachers Retirement System was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 or by calling (502) 573-5120.

Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky contributes matching contributions at the rate of 13.105%. The Federal program that pays for salaries also pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE).

The Russell Independent Schools payroll for employees covered under KTRS was \$7,570,779. For the year ended June 30, 2005, the Commonwealth of Kentucky contributed \$966,982 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the year ending June 30, 2005, were \$25,169, which represents those employees covered by Federal programs.

##### **B. County Employee's Retirement System:**

The District contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to

Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 8.48% of the employee's total compensation. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The District's contributions to CERS for the year ending June 30, 2005, were \$162,670, equal to the required contributions for the year.

#### **(5) ACCUMULATED UNPAID SICK LEAVE BENEFITS**

Upon retirement from the school system, an employee will receive from the Board an amount equal to 30% of the value of accumulated sick leave. At June 30, 2005, this amount totaled \$280,808 for those employees with 27.5 or more years of experience and who have reached the age of 55. The District follows a policy of funding up to one-half of the total amount accrued as a reservation of the General Fund balance. The District has elected not to reserve an amount of the General Fund balance in the current year for accumulated sick leave.

#### **(6) COMMITMENTS AND CONTINGENCIES**

The District receives funding from Federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

#### **(7) CASH AND CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT**

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2005, the carrying amounts of the District's deposits were \$2,394,764 and the bank balances were \$2,974,597. Of the total bank balances, \$567,950 was insured by the Bank Insurance Fund, and \$2,406,647 was secured by collateral held by the pledging banks in the District's name.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Special Revenue (Grant Funds), Bond and Interest Redemption Fund, School Construction Fund, School Food Service Funds, and School Activity Funds.

#### **(8) DEBT OBLIGATIONS**

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make lease payments relating to bonds issued by the



Russell Independent School District Finance Corporation aggregating \$14,845,000, and notes issued by the Russell Independent School District to the Kentucky Interlocal School Transportation Association ("KISTA") in the original amount of \$889,807.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2004	\$ 4,615,000	2.50% - 3.75%
2004 (KISTA)	56,730	1.50% - 3.50%
2003	1,975,000	3.50% - 3.75%
1999	1,475,000	4.75% - 4.90%
1997 (KISTA)	422,000	4.00% - 5.00%
1996	6,780,000	5.625%
Various (KISTA)	411,077	3.50% - 4.70%

The District, through the General Fund, including local building fund taxes, the SEEK Capital Outlay Fund, and the Facilities Support Program of Kentucky is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on the bonds and notes of school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds or notes issued for purchase and construction then outstanding.

A summary of activity in bond obligations and other debts is as follows:

<u>Description</u>	<u>Balance at June 30, 2004</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2005</u>
General obligation bonds - \$14,845,000 originally issued with interest rates ranging from 2.50% to 5.625%	\$ 8,030,000	\$ 4,615,000	\$ 4,665,000	\$ 7,980,000
KISTA notes payable	381,237	56,730	95,260	342,707
Accumulated unpaid sick leave	340,354	-	59,546	280,808
	<u>\$ 8,751,591</u>	<u>\$ 4,671,730</u>	<u>\$ 4,819,806</u>	<u>\$ 8,603,515</u>

In connection with the 1999 bond issue, the Board entered into a participation agreement with the Kentucky School Facilities Construction Commission, whereby the Commission has agreed to provide amounts on an annual basis (reflected in the following table) for a period to two years. The obligation of the Commission to make said payments shall automatically renew every two years, unless the Commission provides the Board notice of its intention not to participate within sixty days prior to the expiration of the two year period.

The bonds may be called prior to maturity at redemption premiums as specified in each issue. Assuming no issues are called prior to scheduled maturity and that the Kentucky School Facilities Construction Commission continues to renew its agreement, the minimum obligations at June 30, 2005 for debt services (principal and interest) are as follows:

## Bonds

Year	Kentucky School Facilities Construction Commission		Russell Independent School District		Total
	Principal	Interest	Principal	Interest	
2006	\$ 60,000	\$ 51,905	\$ 410,000	\$ 221,595	\$ 743,500
2007	65,000	49,445	430,000	218,745	763,190
2008	65,000	46,780	435,000	207,695	754,475
2009	70,000	44,018	445,000	195,508	754,526
2010	70,000	41,042	465,000	180,970	757,012
2011-15	410,000	155,310	2,555,000	662,347	3,782,657
2016-20	410,000	49,827	1,385,000	259,918	2,104,745
2021-23	-	-	705,000	53,625	758,625
	<u>\$ 1,150,000</u>	<u>\$ 438,327</u>	<u>\$6,830,000</u>	<u>\$2,000,403</u>	<u>\$10,418,730</u>

## Notes

Year	Principal	Interest	Total
2006	\$ 98,251	\$ 13,426	\$ 111,677
2007	100,699	8,950	109,649
2008	46,401	5,718	52,119
2009	34,989	3,821	38,810
2010	18,077	2,441	20,518
2011-14	44,290	3,365	47,655
	<u>\$ 342,707</u>	<u>\$ 37,721</u>	<u>\$ 380,428</u>

On November 1, 2004 the District issued \$4,615,000 in School Building Refunding Revenue Bonds with an average interest rate of 3.15% to advance refund \$4,270,000 of outstanding 1996 Series bonds with an interest rate of 5.765%. The net proceeds of \$4,544,095 (after payment of \$27,536 in underwriting fees and \$43,369 of issuance costs) were placed in escrow to provide for all future debt service payments on the 1996 Series bonds. Except for the June 1, 2005 and June 1, 2006 debt serviced payments, the 1996 Series bonds are considered to be defeased and the liability for those bonds has been removed from the debt service schedule. This advance refunding of the 1996 bonds will reduce the District's total debt service payments over the next 11 years by approximately \$394,000.

## (9) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Board Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### (11) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a potential loss.

#### (12) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	\$ 26,387
Operating	SEEK Fund	Debt Service	Debt Service	137,362
Operating	FSPK Fund	Debt Service	Debt Service	498,708

#### (13) ON-BEHALF PAYMENTS

For fiscal year 2005, the Commonwealth of Kentucky contributed estimated payments on behalf of the Russell Independent School District as follows:

<u>Plan / Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 966,982
Health Insurance Plan, Flexible Spending Plan, and Administrative Life Insurance Plan	1,202,295
Vocational Payments	177,948
	<u>\$ 2,347,225</u>

These amounts are included in the Government-wide statement of activities as State revenues and as expenses allocated to the different functions in the same proportion as full-time employees.

## **SUPPLEMENTAL INFORMATION**

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	Construction Fund	SEEK Fund	Debt Service Funds	Total Non-Major Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 86,068	\$ -	\$ -	\$ 86,068
Total assets	<u>86,068</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 86,068</u>
<b>LIABILITIES AND FUND BALANCE:</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Unrestricted	6,598			6,598
Restricted	79,470	-	-	79,470
Total fund balance	<u>86,068</u>	<u>-</u>	<u>-</u>	<u>86,068</u>
Total liabilities and fund balances	<u>\$ 86,068</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,068</u>

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	Construction Fund	SEEK Fund	Debt Service Funds	Total Non-Major Governmental Funds
REVENUES:				
Intergovernmental - State	\$ -	\$ 191,590	\$ 114,305	\$ 305,895
Interest Income	6,323	-	-	6,323
Total revenues	<u>6,323</u>	<u>191,590</u>	<u>114,305</u>	<u>312,218</u>
EXPENDITURES:				
New Building Construction	(2,459)	-	-	(2,459)
Building Renovations	2,184	-	-	2,184
Debt service	-	54,228	750,375	804,603
Total expenditures	<u>(275)</u>	<u>54,228</u>	<u>750,375</u>	<u>804,328</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>6,598</u>	<u>137,362</u>	<u>(636,070)</u>	<u>(492,110)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	636,070	636,070
Operating transfers out	-	(137,362)	-	(137,362)
Total other financing sources (uses)	<u>-</u>	<u>(137,362)</u>	<u>636,070</u>	<u>498,708</u>
NET CHANGE IN FUND BALANCE	6,598	-	-	6,598
FUND BALANCE JUNE 30, 2004	<u>79,470</u>	<u>-</u>	<u>-</u>	<u>79,470</u>
FUND BALANCE June 30, 2005	<u>\$ 86,068</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,068</u>

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NON-MAJOR DEBT SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	1996 Bond Fund	1999 Bond Fund	2003 Bond Fund	2004 Bond Fund	Totals Debt Service Fund
REVENUES:					
Intergovernmental - State	\$ -	\$ 114,305	\$ -	\$ -	\$ 114,305
Total revenues	-	114,305	-	-	114,305
EXPENDITURES:					
Debt service	449,125	114,305	100,995	85,950	750,375
Total expenditures	449,125	114,305	100,995	85,950	750,375
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(449,125)	-	(100,995)	(85,950)	(636,070)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	449,125	-	100,995	85,950	636,070
Total other financing sources (uses)	449,125	-	100,995	85,950	636,070
NET CHANGE IN FUND BALANCE	-	-	-	-	-
FUND BALANCE June 30, 2004	-	-	-	-	-
FUND BALANCE June 30, 2005	\$ -	\$ -	\$ -	\$ -	\$ -

**RUSSELL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**SCHOOL ACTIVITY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	Cash Balance June 30, 2004 \$	Receipts \$	Disbursements \$	Cash Balance June 30, 2005 \$	Accounts Receivable \$	Accounts Payable \$	Deposits Held in Custody for Students June 30, 2005 \$	Interfund Transfer \$
Russell High School	64,148	363,943	368,048	60,043	-	-	60,043	31,326
Russell Middle School	58,414	49,641	48,043	60,012	-	-	60,012	1,152
Russell Primary School	15,009	91,239	84,715	21,533	1,935	1,980	21,488	5,979
Russell-McDowell Intermediate School	7,193	38,245	38,099	7,339	-	-	7,339	373
	<u>\$ 144,764</u>	<u>\$ 543,068</u>	<u>\$ 538,905</u>	<u>\$ 148,927</u>	<u>\$ 1,935</u>	<u>\$ 1,980</u>	<u>\$ 148,882</u>	<u>\$ 38,830</u>



**RUSSELL INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
RUSSELL HIGH SCHOOL ACTIVITY AND SCHOLARSHIP FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	Cash Balances June 30, 2004	Receipts	Disbursements	Cash Balances June 30, 2005	Cash and Deposits Held in Custody For Students June 30, 2005
<b>Activity Funds:</b>					
Academic Team	\$ 299	\$ 2,972	\$ (2,533)	\$ 738	\$ 738
Aerobics	32	-	(32)	-	-
American Government	440	-	(440)	-	-
AP Biology	48	43	(91)	-	-
Art/Stamley	1,928	1,552	(1,957)	1,523	1,523
Art/Leigh	436	4,618	(4,838)	216	216
Arts and Humanities	-	124	-	124	124
Athletics	150	46,220	(46,370)	-	-
Band	2,358	438	(1,872)	924	924
Baseball	-	10,820	(10,820)	-	-
Beta Club	651	6,062	(4,749)	1,964	1,964
Boys Basketball	-	23,572	(23,572)	-	-
Boys Basketball Camp	31	2,331	(615)	1,747	1,747
Boys Golf	-	1,155	(1,155)	-	-
Boys Soccer	-	4,035	(4,035)	-	-
Boys Tennis	-	270	(270)	-	-
Boys Tennis Camp	213	-	-	213	213
Boys Track	(1,115)	3,330	(2,215)	-	-
Boys/Girls Indoor	-	298	(298)	-	-
Boys/Girls State	100	845	(845)	100	100
Boys/Girls Swimming	-	4,693	(4,693)	-	-
Business/Recycling	23	-	(23)	-	-
FC A/CADS	191	2,241	(2,432)	-	-
Choir	6,517	2,488	(2,989)	6,016	6,016
Class of 1993	500	-	-	500	500
Clear Channel	2,000	2,000	(2,500)	1,500	1,500
Close-Up	122	-	-	122	122
Cross Country	-	1,492	(1,492)	-	-
Drug Rehab	18	-	(18)	-	-
English Field Trip	14	231	(236)	9	9
Faculty	565	2,903	(3,444)	24	24
FBLA	11	-	(11)	-	-
FHA	801	2,722	(2,823)	700	700
Fine Arts Department	-	108	(108)	-	-
Focus on Leadership	-	-	-	-	-
Football	30	62,807	(62,837)	-	-
French Club	154	2,492	(1,892)	754	754
Freshman Class	-	667	(520)	147	147
General Office	661	16,725	(14,838)	2,548	2,548
Girls Basketball	-	13,850	(13,850)	-	-
Girls Basketball Camp	5	2,600	(1,450)	1,155	1,155
Girls Golf	-	2,635	(2,635)	-	-
Girls Soccer	-	6,864	(6,864)	-	-
Girls Tennis Camp	1,992	1,200	(1,984)	1,208	1,208
Girls Track	(2,525)	5,724	(3,199)	-	-
GirlsTennis	(319)	1,677	(1,358)	-	-
Guidance Office	146	200	(282)	64	64
Habitat	1	-	(1)	-	-
History Club	31	-	(31)	-	-
Home Economics - McConda	1,490	856	(621)	1,725	1,725
Home Economics - Wallenfelsz	949	2,271	(691)	2,529	2,529
Instructional	2,975	7,191	(5,435)	4,731	4,731
Interact Club	1,134	-	-	1,134	1,134
Intrnational Club	-	135	(125)	10	10
Junior Class	1,252	8,798	(9,124)	926	926
Kay Daniels	-	500	(500)	-	-

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
RUSSELL HIGH SCHOOL ACTIVITY AND SCHOLARSHIP FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	Cash Balances June 30, 2004	Receipts	Disbursements	Cash Balances June 30, 2005	Cash and Deposits Held in Custody For Students June 30, 2005
Key Club	678	270	(273)	675	675
Latin Club	1,158	4,086	(3,726)	1,518	1,518
Lexington A-List Grant	620	-	(192)	428	428
Library	674	1,059	(40)	1,693	1,693
Math Fees	420	-	-	420	420
Maroon & Gold Bank	25	-	(25)	-	-
National Honor Society	527	3,629	(3,177)	979	979
Revenue Lit. Grant	609	-	-	609	609
Revilonian	9,120	15,973	(16,583)	8,510	8,510
ROTC	148	103	(251)	-	-
School Store	3,179	-	-	3,179	3,179
Science Department	-	-	-	-	-
Science Olympiad	710	1,750	(601)	1,859	1,859
Science-Barnett	890	1,340	(732)	1,498	1,498
Science-Wall	619	1,160	(1,583)	196	196
Science-Aldrich	357	2,205	(2,225)	337	337
Science-House	212	950	(736)	426	426
Science-Valentine	30	770	(492)	308	308
Senior Class	818	-	(757)	61	61
Senior Salute	119	760	(173)	706	706
Social Studies Field	24	442	(466)	-	-
Softball	-	7,672	(7,672)	-	-
Sophomore class	-	-	-	-	-
Spanish Fees	198	2,048	(2,093)	153	153
Special Education	225	20	-	245	245
Speech	1,148	1,253	(1,702)	699	699
Sports Medicine	1,199	2,448	(3,329)	318	318
Student Government	88	2,697	(1,948)	837	837
Student Awards	403	965	(1,346)	22	22
Tennis Camp	-	-	-	-	-
Testing	911	15,822	(15,717)	1,016	1,016
Textbooks	14,730	28,647	(43,377)	-	-
Volleyball	-	3,119	(3,119)	-	-
	<u>64,148</u>	<u>363,943</u>	<u>(368,048)</u>	<u>60,043</u>	<u>60,043</u>
<b>Scholarship Funds:</b>					
Barbara Green Scholarship	5,182	78	(150)	5,110	5,110
Bennett Lake Memorial Scholarship	8,061	354	(135)	8,280	8,280
Beta Club Scholarship	3,813	142	-	3,955	3,955
Cameron Weis	14,339	69	(1,000)	13,408	13,408
Colonel Blankenship Scholarship	5,195	20	(350)	4,865	4,865
Earl Mittendorf Scholarship	53,819	439	(2,205)	52,053	52,053
Eliza McKnight Fund	2,145	10	(300)	1,855	1,855
Hyatt Ward Scholarship	1,610	23	-	1,633	1,633
Ledford Scholarship	400	-	-	400	400
Milton Mourer Memorial Scholarship	300	-	-	300	300
Nance Scholarship	1,053	-	(500)	553	553
Patrick Renzi	-	10,000	(10,000)	-	-
Russell Scholarship	1,281	-	(300)	981	981
Russell Independent Scholarship	2,865	3,104	(1,750)	4,219	4,219
Super Quik Scholarship	2,600	1,100	(2,000)	1,700	1,700
Una Fern Menshouse Scholarship	10,123	41	(800)	9,364	9,364
Vanover Scholarship	2,280	-	(950)	1,330	1,330
	<u>115,066</u>	<u>15,380</u>	<u>(20,440)</u>	<u>110,006</u>	<u>110,006</u>
	<u>\$ 179,214</u>	<u>\$ 379,323</u>	<u>\$ (388,488)</u>	<u>\$ 170,049</u>	<u>\$ 170,049</u>

Included in receipts and disbursements are inter-fund transfers in the amount of \$31,327

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Agriculture</u>				
Passed through State Department of Education:				
National School Lunch Program	10.555	0575-04-02	\$ -	\$ 13,161
National School Lunch Program	10.555	0575-05-02	-	184,218
National School Breakfast Program	10.553	0576-04-05	-	2,905
National School Breakfast Program	10.553	0576-05-05	-	<u>47,379</u>
Total U.S. Department of Agriculture				247,663
Passed through State Department of Agriculture:				
Commodities Program	10.569	N/A	-	<u>36,877</u>
Total U.S. Department of Agriculture				<u>284,540</u>
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I	84.010	0451-04-01	244,475	32,937
Title I	84.010	0351-05-01	219,514	219,514
Title I - Migrant Education	84.011	0352-05-04	6,102	6,102
IDEA, Part B	84.027	0581-05-02	351,302	351,302
IDEA, Early Childhood	84.173	0587-05-02	15,740	15,740
IDEA, Early Childhood	84.173	0587-04-02	20,700	4,306
Title V, Innovative Strategy	84.298	0533-05-02	8,635	8,635
Title IV	84.186	0590-05-02	9,971	9,971
Title II, Teacher Quality	84.367	0710-05-02	87,116	87,116
Vocational Education, Title IIC	84.048	0462-05-32	556	556
Vocational Education, Title IIC	84.048	0462-05-32	4,057	4,057
Vocational Education, Title IIC	84.048	0462-06-32	47	47
Technology Literacy Challenge	84.318	0736-04-02	1,443	1,443
Technology Literacy Challenge	84.318	0736-05-02	6,570	<u>6,570</u>
				748,296
Direct Programs -				
Carol M. White Physical Education for Progress	84.215F	N/A	101,114	<u>14,940</u>
				<u>14,940</u>
Total U.S. Department of Education				<u>763,236</u>
<u>U.S. Department of Defense</u>				
Direct Programs -				
ROTC	12.630	N/A	51,423	<u>51,423</u>
Total expenditures of Federal Awards				<u>\$ 1,099,199</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards is a summary of the activity of the District's federal award programs presented on the accrual basis of accounting in accordance with generally accepted accounting principles.

**NOTE B - FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 20, 2005, the District has total inventory of \$14,776.



Kelley,  
Galloway &  
Company, PSC

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Russell Independent School District  
Russell, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Russell Independent School District (the "District") as of and for the year ended June 30, 2005, and have issued our report thereon dated September 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements and Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III to the Independent Auditors Contract - Electronic Submission*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated September 8, 2005.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of

our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements and Appendix III to the Independent Auditor's Contract - Electronic Submission*.

This report is intended solely for the information of the Board and management of the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities, and is not intended and should not be used by anyone other than these specified users.

*Kelley, Balloung & Company, PSC*

September 8, 2005



Kelley,  
Galloway &  
Company, PSC

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Russell Independent School District  
Russell, Kentucky

### Compliance

We have audited the compliance of the Russell Independent School District (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs on page 46. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Russell Independent School District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board and management of the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities, and is not intended and should not be used by anyone other than these specified users.

*Kelley Gallaway & Company, PSC*

September 8, 2005

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**(A) Summary of Audit Results**

1. An unqualified opinion was issued on the basic financial statements.
2. The audit of the basic financial statements of Russell Independent School District as of and for the year ended June 30, 2005, did not disclose any internal control related reportable conditions.
3. The audit did not disclose any noncompliance which is material to the basic financial statements of the Russell Independent School District as of and for the year ended June 30, 2005.
4. There were no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit did not disclose any audit findings and questioned costs related to federal awards for the year ended June 30, 2005.
7. The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2005:

National School Lunch Cluster (10.553 and 10.555)  
Title I (84.010)

8. The dollar threshold used to distinguish between Type A and Type B programs, was \$300,000.
9. The auditee qualified as a low-risk auditee under OMB Circular A-133 *Audits of States, Local Governments and Non-profit Organizations*.

**(B) Findings Relating To The Financial Statements In Accordance With Generally Accepted Government Auditing Standards**

None noted in current year.

**(C) Findings and Questioned Costs Related to Federal Awards.**

None noted in current year.



**RUSSELL INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2005**

There were no prior year audit findings.

**RUSSELL INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2005**

There were no findings that require a corrective action plan in the current year.



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Russell Independent School District  
Russell, Kentucky

In planning and performing our audit of the basic financial statements of Russell Independent School District (the "District") for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure. Additionally, our audit included tests of compliance with applicable laws on regulations.

During our audit, we became aware of matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. A separate report dated September 8, 2005, contains our report on internal control over financial reporting which disclosed no internal control related matters which were considered to be material weaknesses. This letter does not affect our report dated September 8, 2005, on the basic financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed the comments with responsible District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

*Kelley, Galloway & Company, PSC*

September 8, 2005

**RUSSELL INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT LETTER POINTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

Activity Funds

While testing high school activity funds, we noted the following:

We noted that the Bennett Lake Memorial Scholarship account had not been reconciled to the June 30, 2005 bank statement. We recommend that all accounts be balanced to reflect proper balances at year end.

We noted that a blank signed check was given, without a purchase order, to the McDowell Intermediate Librarian to purchase a TV. We recommend that all checks are not released to District employees without being properly filled out and accompanied by an authorized purchase order.

Management Response

The District has communicated the importance of reconciling the activity funds to appropriate personnel so that the proper balance is reflected.

The District Finance Officer has communicated to appropriate personnel that checks are to be properly completed and supported by a properly authorized Purchase Order.